

Message Text

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46

ACTION EB-11

INFO OCT-01 NEA-10 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 AGR-20 NSC-10 SS-15 STR-08

CEA-02 L-03 H-02 PA-03 PRS-01 USIA-12 RSR-01 /161 W
----- 079139

R 160938 Z APR 73

FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 8113
INFO AMEMBASSY AMMAN
AMEMBASSY BEIRUT
USINT CAIRO
AMCONSUL JERUSALEM

UNCLAS TEL AVIV 2998

E O 11652: N/A

TAGS: EFIN, IS

SUBJECT: INFLATION STATUS REPORT

1. CONSUMER PRICE INDEX FOR MARCH PUBLISHED APRIL 15, SHOWED INCREASE IN PRICE LEVEL OF 2.5 PERCENT DURING MARCH, FOR TOTAL RISE OF 5.4 PERCENT DURING FIRST THREE MONTHS OF 1973. THIS RISE WAS UNDOUBTEDLY INFLUENCED INTER ALIA BY DEVALUTATION IN PARALLEL WITH DOLLAR DURING FEBRUARY, WHICH HAD HAD ONLY LIMITED IMPACT THAT MONTH.

2. ANOTHER BIG INCREASE MAY BE EXPECTED FOR APRIL DUE TO INCREASES IN PRICES CERTAIN BASIC FOODSTUFFS ON APRIL 1. PRICE INCREASES IN OTHER COMMODITIES CONTINUE TO BE ANNOUNCED EVERY FEW DAYS.

3. INFLATION WAS DISCUSSED BY VISITING TREASURY ECONOMIST SARAH JACKSON AND EMBOFF ON APRIL 15 WITH DR. ELIEZER SHEFFER, DIRECTOR GENERAL OF BANK OF ISRAEL. TO EMBOFF'S SUGGESTION THAT INFLATION DURING 1973 WOULD REACH 16-17 PERCENT, DR. SHEFFER RESONDED THAT HE THOUGHT THAT WAS PROBABLY ABOUT RIGHT, BUT UNCLASSIFIED

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ESTIMATE MIGHT BE ON LOW SIDE OF LIKELY OUTCOME.

4. DR. SHEFFER NOTED THAT COST FACTORS WERE NOW PRIMARY FACTOR IN INFLATION. EVEN IF MEASURES TAKEN NOW TO CURB CONTINUED RISE, THEY WOULD NOT ACTUALLY IMPACT ON PRICES BEFORE END OF 1973 AT EARLIEST, DUE TO LAGS IN WORKING THROUGH ECONOMY; AND MONETARY THEORIES OF MILTON RIEDMAN WERE CITED IN SUPPORT OF THIS ASSESSMENT.

5. DR. SHEFFER ADDED THAT DECISION HAD BEEN TAKEN TO TIGHTEN MONETARY POLICY ANOTHER NOTCH TOWARD END OF APRIL, BUT GAVE NO DETAILS. HE NOTED THAT MONAY SUPPLY HAD NOT RISEN AT ALL DURING FIRST THREE MONTHS, AFTER INCREASE OF 60 PERCENT DURING TWO YEARS 1971-72. THIS WAS DUE TO AGGRESSIVE POLICY OF TAX COLLECTION PURSUED BY MINISTRY OF FINANCE DURING SAME PERIOD, IN CONJUNCTION WITH BOI' S RESTRICTIVE POLICY. HE ESTIMATED LIKELY INCREASE FOR FULL YEAR 1973 WOULD BE ONE- HALF OF 28 PERCENT ATTAINED LAST YEAR.

ZURHELLEN

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*** Current Classification *** UNCLASSIFIED

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